



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

ROBERT E. LIST, CPA
STEWART J. REID, CPA
MICHAEL L. HANISKO, CPA
DAVID D. QUIMBY, CPA
KATHLYN M. ENGELHARDT, CPA
RENAE M. CLEVINGER, CPA
AMY L. RODRIGUEZ, CPA
SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA
ROY A. SCHAIRER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

BAY COUNTY PUBLIC SCHOOL ACADEMY BAY CITY, MICHIGAN

FINANCIAL STATEMENTS JUNE 30, 2008

1600 CENTER AVENUE
POST OFFICE BOX 775
BAY CITY, MI 48707-0775
989-893-5577
800-624-2400
FAX 989-895-5842
www.wf-cpas.com
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE,
GLADWIN AND WEST BRANCH

RSM McGladrey Network

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Independent Auditors' Report

October 5, 2008

To the Board of Directors
Bay County Public School Academy
Bay City, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bay County Public School Academy as of and for the year ended June 30, 2008, which collectively comprise the Academy's basic financial statements as listed in the index. These financial statements are the responsibility of Bay County Public School Academy's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bay County Public School Academy as of June 30, 2008, and the respective changes in financial position thereof for the year then ended, in conformity with U.S. generally accepted accounting principles.

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WEINLANDER FITZHUGH

To the Board of Directors
Bay County Public School Academy
October 5, 2008

In accordance with *Government Auditing Standards*, we have also issued a report dated October 5, 2008, on our consideration of the Academy's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information listed in the index are not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Bay County Public School Academy's basic financial statements. The accompanying other supplemental information, as identified in the index, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Weinlander Fitzhugh

Bay County Public School Academy

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2008

Bay County Public School Academy is a K-7 Public School Academy located in Bay City, Michigan. This Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Bay County Public School Academy administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2008.

OVERVIEW OF THE FINANCIAL STATEMENTS

U.S. generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: Academy-wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

For the most part, the fund financial statements are comparable to general purpose financial statements. The primary difference is that the Account Groups: General Fixed Assets and General Long-Term Debt are no longer reported. The fund level statements are reported on a modified accrual basis. Only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, the Academy's major instruction and instructional support activities are reported in the General Fund. Additional governmental activities are reported in their relevant Special Revenue Funds.

In the fund financial statement, capital assets purchased are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

Academy-wide Financial Statements:

The Academy-wide financial statements are maintained using the "full accrual" basis. They report all of the Academy's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and long-term obligations of the Academy are reported in the Statement of Net Assets of the Academy-wide financial statements.

Bay County Public School Academy

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2008

FINANCIAL ANALYSIS OF THE ACADEMY AS A WHOLE

Summary of Net Assets:

The following summarizes the net assets at fiscal year ended June 30, 2007 and 2008:

Net Assets Summary

	<u>2007</u>	<u>2008</u>
Assets		
Current assets	<u>\$ 1,265,361</u>	<u>\$ 1,282,090</u>
Capital assets and acquisition costs	3,406,800	3,430,362
Less: accumulated depreciation and amortization	<u>(479,239)</u>	<u>(553,884)</u>
Capital assets and costs, net book value	<u>2,927,561</u>	<u>2,876,478</u>
Total assets	<u><u>\$ 4,192,922</u></u>	<u><u>\$ 4,158,568</u></u>
Liabilities		
Current liabilities	\$ 271,161	\$ 328,199
Long-term liabilities	<u>3,245,000</u>	<u>3,220,000</u>
Total liabilities	<u><u>\$ 3,516,161</u></u>	<u><u>\$ 3,548,199</u></u>
Net assets		
Invested in capital assets, net of related debt (deficit)	\$ (553,999)	\$ (578,002)
Restricted for debt service	508,409	523,323
Unrestricted	<u>722,351</u>	<u>665,048</u>
Total net assets	<u><u>\$ 676,761</u></u>	<u><u>\$ 610,369</u></u>

FINANCIAL ANALYSIS OF THE ACADEMY'S FUNDS

During fiscal year ended June 30, 2008, the Academy's net assets decreased by \$66,391 as compared to a net increase of \$217,472 in the prior fiscal year. The Academy purchased twenty-five computers along with four projectors and four digital cameras during the school year. It is anticipated that a trend of annual decreases in net assets would be expected in the early years of the Academy owning its facility while straight-line depreciation of the book value of capital assets outpaces the retirement of debt that has been used to finance capital asset acquisitions. Once retirement of debt principal begins to outpace the Academy's straight-line depreciation, a swing in the opposite direction will occur and the Academy will see larger increases in net assets as a result of this timing difference reversing itself. Additional factors affecting the change in net assets during the year are discussed below:

Bay County Public School Academy

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2008

A. Results of Operations:

For the fiscal year ended June 30, 2007 and 2008, the Academy wide results of operations were:

	2007		2008	
	Amount	% of Total	Amount	% of Total
General revenue:				
State of Michigan aid - all sources	\$ 2,227,368	73.78%	\$ 1,817,281	69.33%
Other	49,539	1.64%	38,622	1.47%
Total general revenue	2,276,907	75.42%	1,855,903	70.80%
Program revenue:				
Charges for services	40,010	1.33%	35,580	1.36%
Operating grants - federal and state	702,101	23.26%	729,881	27.84%
Total program revenue	742,111	24.58%	765,461	29.20%
Total revenue	3,019,018	100.00%	2,621,364	100.00%
Expenses:				
Instruction and instructional services	1,209,456	43.17%	1,172,222	43.61%
Support services	1,010,913	36.08%	981,035	36.50%
Food services	131,391	4.69%	110,354	4.11%
Oasis	15,354	0.55%	15,048	0.56%
Interest on long-term debt	336,469	12.01%	334,452	12.44%
Depreciation (unallocated)	97,963	3.50%	74,644	2.78%
Total expenses	2,801,546	100.00%	2,687,755	100.00%
Increase (decrease) in net assets	\$ 217,472		\$ (66,391)	

B. State of Michigan Aid, Unrestricted

The State of Michigan aid, unrestricted is determined by the following variables:

- Per Student, Foundation Allowance: Annually, the State of Michigan sets the per student foundation allowance. The Bay County Public School Academy foundation allowance was \$7,204 per student for the 2007 - 2008 school year.
- Student Enrollment: The Academy's student enrollment for the fall count of 2007 - 2008 was 239 students. To calculate total state aid to be provided by the foundation allowance, a blend of 75% of current year fall count and 25% of the previous year winter count is multiplied by the Academy's foundation allowance.

Subsequent to June 30, 2008, preliminary student enrollments for 2008 - 2009 indicate that the 2008 fall student enrollment will be moderately lower than the 2007 - 2008 levels.

C. General Fund Budgetary Highlights**General Fund Operations**

The Academy's expenditures and other financing uses exceeded revenues and other financing sources for the General Fund by \$45,334 for the fiscal year ended June 30, 2008. The Academy's financial strength will allow it to weather the effects of future economic downturns while giving the financial flexibility necessary to continue to positively impact the future of the youth in the Bay County area.

Final Budget vs. Actual

<u>Fiscal Year</u>	<u>Final Budget</u>	<u>Final Actual</u>
Revenues		
2006-2007	\$ 2,903,247	\$ 2,843,459
2007-2008	\$ 2,606,559	\$ 2,486,254
2008-2009 (Projected)	\$ 2,218,774	
Expenditures		
2006-2007	\$ 2,842,734	\$ 2,663,395
2007-2008	\$ 2,735,178	\$ 2,531,588
2008-2009 (Projected)	\$ 2,322,099	

Original vs. Final Budget

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Bay County Public School Academy amends its budget periodically as needed during the school year. For the fiscal year 2007 - 2008, the budget was amended in January 2008 and June 2008. The June 2008 budget amendment was the final budget for the fiscal year. The Bay County Public School Academy Board does not budget for expenditures covered by grants or for the grant revenue until an award allocation is received. The General Fund does not budget for debt financed capital outlays, if applicable, in the original budget.

Bay County Public School Academy

Management's Discussion and Analysis For Fiscal Year Ended June 30, 2008

Change from Original to Final General Fund Budget

Revenues:

Total Revenues Original Budget	\$ 2,888,150
Total Revenues Final Budget	<u>2,606,559</u>
Decrease in Budgeted Revenues	<u>\$ 281,591</u>

The Academy's final General Fund revenues were less than the final budget by \$120,304, a variance of 4.6%. This variance was primarily a result of unspent grant allocations awarded to the Academy. Those allocations are available through September 30 and it is anticipated that these unspent allocations at June 30 will be used before the end of the grant period.

The following are the significant changes in revenues from the original budget:

- Original budget had estimated an enrollment of 325 students and fall 2007 actual enrollment was 239. Since the Academy had a decrease in student enrollment we then adjusted the state foundation allowance to the actual anticipated amount.
- Estimated grant allocation revenues from original budget were adjusted to actual grant allocations.
- Received a mini-grant from Bay Mills the Charter School Authorizer in the amount of \$2,000.
- Received increased contributions from Medicaid Payments from Bay Arenac Intermediate School District.
- Adjusted the Special Education Act 18 monies to anticipated collection amount from Bay Arenac Intermediate School District.

Expenditures:

The Academy's budget for expenditures changed as follows during the year:

Total Expenditures Original Budget	\$ 2,789,224
Total Expenditures Final Budget	<u>2,735,178</u>
Decrease in Budgeted Expenditures	<u>\$ 54,046</u>

The Academy's actual expenditures were less than final budget by \$203,590 a variance of 7.4%. This variance was primarily a result of under-spending grant allocations described above under the explanation of the revenue variance together with efforts to control costs in all areas of the budget to reduce the over expected short-fall.

The following are the significant changes in expenditures from the original budget:

- Adjustment in expenditures to recognize the programmatic reductions due to a decline in student enrollment.
- Adjustments in expenditures and programmatic designs as a result of an increase in state and federal grant allocations.
- Adjustment to decrease management fees and authorizer fees as a result of decreased student enrollment.

CAPITAL ASSETS AND DEBT ADMINISTRATION**A. Capital Assets**

The Academy's net investment in capital assets decreased by \$44,402 during the fiscal year. This can be summarized as follows:

	Beginning Balance 6/30/07	Additions	Disposals	Ending Balance 6/30/08
Non-depreciable capital assets	\$ 242,521	\$ 0	\$ 0	\$ 242,521
Depreciable capital assets	2,963,867	23,562	0	2,987,429
Less: accumulated depreciation	(454,188)	(67,964)	0	(522,152)
Net investment in capital assets	<u>\$ 2,752,200</u>	<u>\$ (44,402)</u>	<u>\$ 0</u>	<u>\$ 2,707,798</u>

B. Depreciation Expense

GASB 34 requires Public School Academies to maintain a record of annual depreciation expense as well as accumulated depreciation. The net increase in accumulated depreciation expense is a reduction in net assets in the entity wide financial statements. Depreciation is not recognized in the fund financial statements and has been noted as a reconciling item in the Academy's financial statements.

For fiscal year ended June 30, 2008, the net increase in accumulated depreciation was \$67,964.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of assets. In accordance with U.S. generally accepted accounting principles (GAAP), depreciation expense is recorded based on the original cost of the asset, less an estimated salvage value.

C. Debt, Principal Payments

A summary of long-term debt service activities is as follows.

	Balance 06/30/2007	New Financings	Principal Payments	Balance 06/30/2008
Certificates of Participation	<u>\$ 3,265,000</u>	<u>\$ 0</u>	<u>\$ 20,000</u>	<u>\$ 3,245,000</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Preliminary Budget for the 2008-09 Fiscal Year was adopted by the Board of Education in June 2008. Few definite factors were known as the budget was being drafted, and others were unknown and needed to be projected with management's best estimates based on feedback from the community. Some key factors and estimates used in the 2008-09 budget preparation process include:

- The State Aid foundation had been estimated to be \$7,254 per pupil;
- Enrollment projections of 220 students in grades K-5;
- Teaching staff, at a maximum, would provide one teacher for every 25 students;
- Benefit costs would be based on group coverage rates through the Michigan Chamber of Commerce.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to School Districts and Public School Academies. The State periodically holds revenue-estimating conferences to estimate what the State's available resources will be throughout the remainder of its fiscal year. In spite of the current economic uncertainties we remain cautiously confident that the State will find the resources to sufficiently fund current appropriations.

CONTACTING THE ACADEMY'S MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Administration Office, Bay County Public School Academy, 1110 State St., Bay City, Michigan.

BAY COUNTY PUBLIC SCHOOL ACADEMY
Statement of Net Assets
June 30, 2008

	<u>Governmental Activities</u>
<u>Assets</u>	
Cash and investments	\$ 822,420
Receivables:	
Accounts receivable	11,855
Due from other governmental units	438,068
Prepaid expenses	9,747
Acquisition costs less accumulated amortization of \$31,732	168,680
Capital assets less accumulated depreciation of \$522,152	<u>2,707,798</u>
 Total assets	 <u>4,158,568</u>
 <u>Liabilities</u>	
Accounts payable	99,835
Accrued liabilities	94,250
Deferred revenue	68,314
Accrued interest payable	40,800
Long-term liabilities:	
Due within one year	25,000
Due in more than one year	<u>3,220,000</u>
Total liabilities	<u>3,548,199</u>
 <u>Net Assets</u>	
Investment in capital assets - net of related debt	(578,002)
Restricted for debt service	523,323
Unrestricted	<u>665,048</u>
 Total net assets	 <u><u>\$ 610,369</u></u>

See accompanying notes to financial statements.

BAY COUNTY PUBLIC SCHOOL ACADEMY
Statement of Activities
For the Year Ended June 30, 2008

		Program Revenues		Governmental
		Charges for	Operating Grants/	Activities
	Expenses	Services	Contributions	Net (Expense) Revenue and Changes in Net Assets
<u>Functions/Programs</u>				
Primary government -				
Governmental activities:				
Instruction	\$ 1,172,222	\$ 0	\$ 637,807	\$ (534,415)
Support services	981,035	0	7,541	(973,494)
Food services	110,354	18,167	84,533	(7,654)
Oasis	15,048	17,413	0	2,365
Interest on long-term debt	334,452	0	0	(334,452)
Depreciation and amortization (unallocated)	74,644	0	0	(74,644)
Total governmental activities	<u>\$2,687,755</u>	<u>\$ 35,580</u>	<u>\$ 729,881</u>	<u>(1,922,294)</u>
General revenues:				
State aid not restricted to specific purposes				1,817,281
Investment earnings				28,619
Other				<u>10,003</u>
Total general revenues				<u>1,855,903</u>
Change in net assets				(66,391)
Net assets - beginning of year				<u>676,760</u>
Net assets - end of year				<u>\$ 610,369</u>

See accompanying notes to financial statements.

BAY COUNTY PUBLIC SCHOOL ACADEMY
Governmental Funds
Balance Sheet
June 30, 2008

	<u>General</u>	<u>Debt Service</u>	Nonmajor Governmental Funds (<u>Special Revenue</u>)	<u>Total</u>
<u>Assets</u>				
Cash and investments	\$ 251,019	\$ 523,323	\$ 48,078	\$ 822,420
Receivables:				
Accounts receivable	11,855	0	0	11,855
Due from other funds	40,292	0	4,344	44,636
Due from other governmental units	438,068	0	0	438,068
Prepaid expenditures	<u>9,747</u>	<u>0</u>	<u>0</u>	<u>9,747</u>
 Total Assets	 <u>\$ 750,981</u>	 <u>\$ 523,323</u>	 <u>\$ 52,422</u>	 <u>\$ 1,326,726</u>
 <u>Liabilities and Fund Balance</u>				
<u>Liabilities</u>				
Accounts payable	\$ 99,835	\$ 0	\$ 0	\$ 99,835
Accrued liabilities	94,250	0	0	94,250
Deferred revenue	68,314	0	0	68,314
Due to other funds	<u>0</u>	<u>0</u>	<u>44,636</u>	<u>44,636</u>
 Total liabilities	 <u>262,399</u>	 <u>0</u>	 <u>44,636</u>	 <u>307,035</u>
 <u>Fund Balance</u>				
Reserved for prepaid expenditures	9,747	0	0	9,747
Reserved for debt service	0	523,323	0	523,323
Reserved for food services	0	0	7,786	7,786
Unreserved:				
Undesignated	<u>478,835</u>	<u>0</u>	<u>0</u>	<u>478,835</u>
 Total fund balance	 <u>488,582</u>	 <u>523,323</u>	 <u>7,786</u>	 <u>1,019,691</u>
 Total Liabilities and Fund Balance	 <u>\$ 750,981</u>	 <u>\$ 523,323</u>	 <u>\$ 52,422</u>	 <u>\$ 1,326,726</u>

See accompanying notes to financial statements

BAY COUNTY PUBLIC SCHOOL ACADEMY
Reconciliation of Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2008

Total fund balance - governmental funds	\$ 1,019,691
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds:

Cost of the capital assets	\$ 3,229,950	
Accumulated depreciation	(522,152)	
		2,707,798

Other assets used in governmental activities are not financial
resources and therefore are not reported in governmental funds:

Acquisition costs	200,412	
Accumulated amortization	(31,732)	
		168,680

Long-term liabilities are not due and payable in the current period
and are not reported in the funds:

Certificates of participation	(3,245,000)
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Accrued interest payable is not included as a liability in
governmental activities

	(40,800)
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Total net assets - governmental activities	\$ 610,369
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See accompanying notes to financial statements

BAY COUNTY PUBLIC SCHOOL ACADEMY
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Year Ended June 30, 2008

	General	Debt Service	Nonmajor Governmental Funds	Totals
<u>Revenues</u>				
Local sources	\$ 23,625	\$ 14,996	\$ 34,074	\$ 72,695
State sources	2,080,098	0	3,266	2,083,364
Federal sources	367,532	0	82,773	450,305
Interdistrict and other sources	14,999	0	0	14,999
Total revenues	<u>2,486,254</u>	<u>14,996</u>	<u>120,113</u>	<u>2,621,363</u>
<u>Expenditures</u>				
Current:				
Instruction	1,195,684	0	0	1,195,684
Support services	981,035	0	0	981,035
Food services	0	0	110,354	110,354
Oasis	0	0	15,048	15,048
Debt service:				
Principal	0	20,000	0	20,000
Interest and fees	3,163	331,688	0	334,851
Capital outlay	100	0	0	100
Total expenditures	<u>2,179,982</u>	<u>351,688</u>	<u>125,402</u>	<u>2,657,072</u>
Excess (deficiency) of revenues over expenditures	<u>306,272</u>	<u>(336,692)</u>	<u>(5,289)</u>	<u>(35,709)</u>
<u>Other Financing Sources (Uses)</u>				
Operating transfers in	0	351,606	0	351,606
Operating transfers out	(351,606)	0	0	(351,606)
Total other financing sources (uses)	<u>(351,606)</u>	<u>351,606</u>	<u>0</u>	<u>0</u>
Net change in fund balance	(45,334)	14,914	(5,289)	(35,709)
Fund balance - beginning of year	<u>533,916</u>	<u>508,409</u>	<u>13,075</u>	<u>1,055,400</u>
Fund balance - end of year	<u>\$ 488,582</u>	<u>\$ 523,323</u>	<u>\$ 7,786</u>	<u>\$ 1,019,691</u>

See accompanying notes to financial statements

BAY COUNTY PUBLIC SCHOOL ACADEMY
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balance of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balance - total governmental funds	\$ (35,709)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	23,562
Depreciation expense	(67,964)
Other costs related to acquisition and amortization use governmental fund resources and recognize them as expenditures when incurred. These costs have been deferred and are being amortized on the statement of activities:	
Amortization of acquisition costs	(6,680)
Interest expense is recorded in the statement of activities when incurred; it is not reported in the governmental funds until paid	400
Repayment of long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	<div style="border-top: 1px solid black;">20,000</div>
Change in net assets of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black;">\$ (66,391)</div>

See accompanying notes to financial statements.

BAY COUNTY PUBLIC SCHOOL ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Bay County Public School Academy (the “Academy”) conform to U.S. generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Academy:

Reporting Entity

The Academy is governed by an appointed Board of Directors and is authorized by Bay Mills Community College Board of Regents. The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Academy’s reporting entity, and which organizations are legally separate component units of the Academy. The Academy has no component units.

Academy-wide and Fund Financial Statements

The academy-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All of the Academy’s government-wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental payments, and other items not properly included among program revenues are reported as general revenue.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

BAY COUNTY PUBLIC SCHOOL ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Academy-wide Statements – The Academy-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the district-wide financial statements.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes unrestricted State aid.

Fund-based Statements – Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose the Academy considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Unrestricted state aid, intergovernmental grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the Academy.

BAY COUNTY PUBLIC SCHOOL ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Academy reports the following major governmental funds:

General Fund – The General Fund is used to record the general operations of the Academy pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Debt Service Fund – The Debt Service Fund is used to account for the accumulated resources for, and the payment of, general long-term principal, interest, and related costs.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments – Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “advances to/from other funds.”

Prepaid Items – Certain payments to vendors reflect costs applicable to future fiscal years and is recorded as prepaid items in both district-wide and fund financial statements.

Acquisition Costs – Acquisition costs are reflected only in the Academy wide financial statements and are being amortized using the straight-line method over the life of the certificates of participation they relate to which is thirty years. Amortization expense for the year ended June 30, 2008 was \$6,680.

BAY COUNTY PUBLIC SCHOOL ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets – Capital assets, which include land, buildings, and equipment, are reported in the applicable governmental activities column in the Academy-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,500 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The Academy does not have infrastructure-type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	50 years
Furniture and equipment	5-20 years

Long-term Obligations – In the academy-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

Fund Equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

State Aid – For the fiscal year ended June 30, 2008, the State of Michigan adopted a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2008, the foundation allowance was based on the average pupil membership counts taken in February and September of 2007.

BAY COUNTY PUBLIC SCHOOL ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The state portion of the foundation allowance is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through payments from October 2007 – August 2008. Amounts receivable from the State of Michigan at June 30, 2008 relating to state aid is \$385,928.

The Academy also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain categorical funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

NOTE 2 – BUDGETS

The State of Michigan adopted a Uniform Budgeting and Accounting Act (Act) applicable to all local governmental entities in the state. The law requires appropriation acts to be adopted for General and Special Revenue Funds of school districts prior to the expenditure of monies in a fiscal year.

Bay County Public School Academy follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Academy's Chief Administrative Officer submits to the Board a proposed budget prior to July 1 of each year. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Budgeted amounts are as originally adopted, or as amended by the Board throughout the year. Individual amendments were not material in relation to the original appropriations. Budgets are adopted to the functional level.
4. Appropriations lapse at year-end and therefore cancels all encumbrances. These appropriations are re-established at the beginning of the following year.

BAY COUNTY PUBLIC SCHOOL ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 2 – BUDGETS (CONTINUED)

A comparison of actual results of operations to the budgeted amounts (at the level of control adopted by the Board of Directors) for the General Fund is presented as Required Supplemental Information.

During the year ended June 30, 2008, the Academy incurred the following unfavorable budget variances:

<u>Fund/Function</u>	<u>Total Budget</u>	<u>Actual Amount</u>	<u>Budget Variance</u>
General Fund:			
Revenue			
State sources	\$ 2,148,415	\$ 2,080,098	\$ 68,317
Federal sources	425,645	367,532	58,113
Expenditures			
Support services			
Other	0	2,534	2,534
Debt service	0	3,163	3,163

BAY COUNTY PUBLIC SCHOOL ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS

State statutes and the Academy's investment policy authorize the Academy to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the Academy is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The Academy's deposits are in accordance with statutory authority.

At year-end, the Academy's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>
Cash and investments	<u>\$ 822,420</u>
The breakdown between deposits and investments for the Academy is as follows:	
Deposits (checking and savings accounts, certificates of deposit)	\$ 299,098
Investment in money market mutual funds with an average maturity of 20 days	<u>523,322</u>
Total	<u>\$ 822,420</u>

Interest Rate Risk

In accordance with its investment policy, the Academy will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations.

Credit Risk

State law limits investments in commercial paper and corporate bonds to a prime or better rating issued by nationally recognized statistical rating organizations (NRSROs). As of June 30, 2008, the Academy's investment in the money market mutual funds was rated AAAM by Standards & Poor's and Aaa by Moody's Investors Service.

BAY COUNTY PUBLIC SCHOOL ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. As of June 30, 2008, \$232,109 of the Academy's bank balance of \$332,109 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 4 – CAPITAL ASSETS

A summary of changes in governmental capital assets follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Assets not being depreciated - land	\$ 242,521	\$ 0	\$ 0	\$ 242,521
Capital assets being depreciated:				
Building and improvements	2,577,273	0	0	2,577,273
Furniture and equipment	386,594	23,562	0	410,156
Subtotal	2,963,867	23,562	0	2,987,429
Accumulated depreciation:				
Building and improvements	184,922	51,417	0	236,339
Furniture and equipment	269,266	16,547	0	285,813
Subtotal	454,188	67,964	0	522,152
Net capital assets being depreciated	2,509,679	(44,402)	0	2,465,277
Net capital assets	\$ 2,752,200	\$ (44,402)	\$ 0	\$ 2,707,798

BAY COUNTY PUBLIC SCHOOL ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation for fiscal year ended June 30, 2008 amounted to \$67,964. The Academy determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES AND TRANSFERS

A summary of inter-fund receivable and payable balances at June 30, 2008 and transfers made during the year ended June 30, 2008 is as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Payables</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General	\$ 40,292	\$ 0	\$ 0	\$ 351,606
Special Revenue:				
Food Services	0	44,636	0	0
Oasis	4,344	0	0	0
Debt	0	0	351,606	0
	<u>\$ 44,636</u>	<u>\$ 44,636</u>	<u>\$ 351,606</u>	<u>\$ 351,606</u>

These inter-fund receivables and payable balances resulted from the time lag between the dates that (1) inter-fund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made. Transfers are used to reflect funding support for debt service.

NOTE 6 – RECEIVABLES

Receivables at June 30, 2008 consist of accounts (fees), intergovernmental grants and interest.

A summary of the intergovernmental receivables (due from other governmental units) follows:

State aid	\$385,928
Federal grants	<u>52,140</u>
	<u>\$438,068</u>

BAY COUNTY PUBLIC SCHOOL ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 7 – LONG-TERM DEBT

The following is a summary of governmental long-term obligations for the Academy for the year ended June 30, 2008

	Balance July 1, 2007	Additions	Retirements and Payments	Balance June 30, 2008	Amount Due Within One Year
Certificates of participation	<u>\$ 3,265,000</u>	<u>\$ 0</u>	<u>\$ 20,000</u>	<u>\$ 3,245,000</u>	<u>\$ 25,000</u>

Certificates of Participation at June 30, 2008 is comprised of the following issues:

<p>\$3,280,000 Certificates of Participation due in annual installments of \$15,000 to \$640,000 through October 1, 2033, interest at 9.25% to 10.25%</p>	<p><u>\$ 3,245,000</u></p>
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BAY COUNTY PUBLIC SCHOOL ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 7 – LONG-TERM DEBT (CONTINUED)

The annual requirements to amortize long-term debt outstanding as of June 30, 2008 including interest payments are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 25,000	\$ 329,606	\$ 354,606
2010	25,000	327,294	352,294
2011	30,000	324,750	354,750
2012	30,000	321,975	351,975
2013	35,000	318,969	353,969
2014-2018	250,000	1,529,613	1,779,613
2019-2023	405,000	1,366,068	1,771,068
2024-2028	680,000	1,093,164	1,773,164
2029-2033	1,125,000	640,368	1,765,368
2034	640,000	32,800	672,800
	<u>\$ 3,245,000</u>	<u>\$ 6,284,607</u>	<u>\$ 9,529,607</u>

NOTE 8 – GRANTS

The Academy receives significant financial assistance from federal and state governmental agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the Academy's independent auditors and other governmental auditors. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable fund. Based on prior experience, the Academy administration believes such disallowance, if any, would be immaterial.

BAY COUNTY PUBLIC SCHOOL ACADEMY
Notes to Financial Statements
For the Year Ended June 30, 2008

NOTE 9 – ECONOMIC DEPENDENCY

The Academy received approximately 84% of their General Fund revenue from the Michigan Department of Education. Due to the significance of this revenue source to the Academy, the Academy is considered to be economically dependent.

NOTE 10 – CONTRACTUAL COMMITMENTS

The Academy has entered into an agreement with Bay Mills Community College Board of Regents, a public academy authorizing body. Bay Mills exercises oversight functions as authorized by the college board. The amount paid to Bay Mills for oversight functions during the year ended June 30, 2008 was \$63,675.

The Academy has entered into an agreement with Mosaica Education, Inc. to perform management services. The amount paid to Mosaica Education, Inc. for management services during the year ended June 30, 2008 was \$307,907.

BAY COUNTY PUBLIC SCHOOL ACADEMY
Required Supplemental Information
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2008

	Original Budget	Final Amended Budget	Actual
<u>Revenues</u>			
Local sources	\$ 14,900	\$ 17,500	\$ 23,625
State sources	2,491,035	2,148,415	2,080,098
Federal sources	356,870	425,645	367,532
Interdistrict and other sources	25,345	14,999	14,999
Total revenues	<u>2,888,150</u>	<u>2,606,559</u>	<u>2,486,254</u>
<u>Expenditures</u>			
Instruction:			
Basic programs	998,176	1,002,232	945,559
Added needs	194,856	303,495	250,125
Support services:			
Pupil	101,651	60,973	55,513
Instructional staff	191,830	201,212	187,545
General administration	452,680	399,842	382,156
School administration	192,528	173,325	170,239
Business services	21,275	22,025	18,262
Operations and maintenance	230,253	173,349	161,259
Other	0	0	2,534
Information services	15,775	16,060	3,527
Debt service	0	0	3,163
Capital Outlay	4,000	4,200	100
Total expenditures	<u>2,403,024</u>	<u>2,356,713</u>	<u>2,179,982</u>
Excess of revenues over expenditures	<u>485,126</u>	<u>249,846</u>	<u>306,272</u>
<u>Other Financing Sources (Uses)</u>			
Operating transfers out	(386,200)	(378,465)	(351,606)
Total other financing sources (uses)	<u>(386,200)</u>	<u>(378,465)</u>	<u>(351,606)</u>
Net change in fund balance	98,926	(128,619)	(45,334)
Fund balance - beginning of year	<u>533,916</u>	<u>533,916</u>	<u>533,916</u>
Fund balance - end of year	<u>\$ 632,842</u>	<u>\$ 405,297</u>	<u>\$ 488,582</u>

BAY COUNTY PUBLIC SCHOOL ACADEMY
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

		<u>Special Revenue Funds</u>		
		<u>Food Services</u>	<u>Oasis</u>	<u>Totals</u>
<u>ASSETS</u>				
Cash and investments		\$ 48,078	\$ 0	\$ 48,078
Due from other funds		0	4,344	4,344
Total assets		<u>\$ 48,078</u>	<u>\$ 4,344</u>	<u>\$ 52,422</u>
 <u>LIABILITIES AND FUND BALANCE</u>				
<u>Liabilities</u>				
Due to other funds		\$ 44,636	\$ 0	\$ 44,636
<u>Fund Balance</u>				
Unreserved:				
Undesignated		3,442	4,344	7,786
Total Liabilities and Fund Balance		<u>\$ 48,078</u>	<u>\$ 4,344</u>	<u>\$ 52,422</u>

BAY COUNTY PUBLIC SCHOOL ACADEMY
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes
in Fund Balance - Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	<u>Special Revenue Funds</u>		
	<u>Food Services</u>	<u>Oasis</u>	<u>Totals</u>
<u>Revenues</u>			
Local sources	\$ 18,167	\$ 15,907	\$ 34,074
State sources	1,760	1,506	3,266
Federal sources	82,773	0	82,773
Total revenues	102,700	17,413	120,113
<u>Expenditures</u>			
Current:			
Food services	110,354	0	110,354
Oasis	0	15,048	15,048
Total expenditures	110,354	15,048	125,402
Excess (deficiency) of revenues over expenditures	(7,654)	2,365	(5,289)
Net change in fund balance	(7,654)	2,365	(5,289)
Fund balance - beginning of year	11,096	1,979	13,075
Fund balance - end of year	\$ 3,442	\$ 4,344	\$ 7,786

BAY COUNTY PUBLIC SCHOOL ACADEMY
Other Supplemental Information
Schedule of Long-term Debt
For the Year Ended June 30, 2008

<u>PURPOSE</u>	The certificates of participation were issued for the purpose of the purchase of building and related legal and administrative costs and fees.		
<u>DATE OF ISSUE</u>	October 1, 2003		
<u>AMOUNT OF ISSUE</u>			\$ 3,280,000
<u>AMOUNT OF RETIRED</u>			
	During prior years	\$ 15,000	
	During current year	<u>20,000</u>	<u>35,000</u>
<u>BALANCE OUTSTANDING - June 30, 2008</u>			<u><u>\$ 3,245,000</u></u>

<u>Fiscal Year</u>	<u>Interest Rate</u>	<u>Requirements</u>		
		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	9.25%	\$ 25,000	\$ 329,606	\$ 354,606
2010	9.25%	25,000	327,294	352,294
2011	9.25%	30,000	324,750	354,750
2012	9.25%	30,000	321,975	351,975
2013	9.25%	35,000	318,969	353,969
2014	9.25 - 10.25%	40,000	315,500	355,500
2015	10.25%	45,000	311,344	356,344
2016	10.25%	50,000	306,475	356,475
2017	10.25%	55,000	301,094	356,094
2018	10.25%	60,000	295,200	355,200
2019	10.25%	65,000	288,794	353,794
2020	10.25%	70,000	281,875	351,875
2021	10.25%	80,000	274,187	354,187
2022	10.25%	90,000	265,475	355,475
2023	10.25%	100,000	255,737	355,737
2024	10.25%	110,000	244,975	354,975
2025	10.25%	120,000	233,188	353,188
2026	10.25%	135,000	220,119	355,119
2027	10.25%	150,000	205,513	355,513
2028	10.25%	165,000	189,369	354,369
2029	10.25%	180,000	171,687	351,687
2030	10.25%	200,000	152,212	352,212
2031	10.25%	225,000	130,431	355,431
2032	10.25%	245,000	106,344	351,344
2033	10.25%	275,000	79,694	354,694
2034	10.25%	<u>640,000</u>	<u>32,800</u>	<u>672,800</u>
		<u><u>\$ 3,245,000</u></u>	<u><u>\$ 6,284,607</u></u>	<u><u>\$ 9,529,607</u></u>



WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS
& CONSULTANTS

ROBERT E. LIST, CPA
STEWART J. REID, CPA
MICHAEL L. HANISKO, CPA
DAVID D. QUIMBY, CPA
KATHLYN M. ENGELHARDT, CPA
RENAE M. CLEVINGER, CPA
AMY L. RODRIGUEZ, CPA
SCOTT A. NIETZKE, CPA

October 5, 2008

WALTER G. WEINLANDER, CPA
ROY A. SCHAIRER, CPA
JAMES L. WHALEY, CPA
JEROME L. YANTZ, CPA
PHILIP T. SOUTHGATE, CPA
ROBERT J. DUYCK, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Bay County Public School Academy
Bay City, Michigan

We have audited the basic financial statements of Bay County Public School Academy as of and for the year ended June 30, 2008, have issued our report thereon dated October 5, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Bay County Public School Academy's internal control over financial reporting.

1600 CENTER AVENUE
POST OFFICE BOX 775
BAY CITY, MI 48707-0775
989-893-5577
800-624-2400
FAX 989-895-5842
www.wf-cpas.com
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE,
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WEINLANDER FITZHUGH

Board of Directors
Bay County Public School Academy
October 5, 2008

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Academy's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bay County Public School Academy's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, board of directors, others within the entity and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Weinlander Fitzhugh



WEINLANDER FITZHUGH

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& CONSULTANTS

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October 5, 2008

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To the Board of Directors
Bay County Public School Academy
Bay City, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Bay County Public School Academy for the year ended June 30, 2008, and have issued our report thereon dated October 5, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities Under U.S. Generally Accepted Auditing Standards and Governmental Auditing Standards

As stated in our engagement letter dated August 1, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Bay County Public School Academy. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Bay County Public School Academy's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our correspondence about planning matters on August 1, 2008.

1600 CENTER AVENUE
POST OFFICE BOX 775
BAY CITY, MI 48707-0775
989-893-5577
800-624-2400
FAX 989-895-5842
www.wf-cpas.com
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE,
GLADWIN AND WEST BRANCH

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Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Bay County Public School Academy are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of depreciation is based on estimated useful life of fixed assets. We evaluated the key factors and assumptions used to develop the estimated useful life of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. During the audit, there was a material adjustment that was recorded to the general ledger to reclassify a bond interest payment. Management has corrected all such misstatements.



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Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 5, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the board of directors, management of Bay County Public School Academy and others within the entity and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

